



Northern Powergrid's response to Ofgem's draft determinations on the ED2 Storm Arwen reopener

KEY POINTS

We are pleased that Ofgem is set to allow funding for many of our resilience related network investment initiatives and our compensation process improvements. However, we are very concerned that Ofgem does not intend to allow the indirect costs that are essential to delivering the incremental work required.

It is also concerning that Ofgem has sought to change the regulatory treatment of these allowances without setting out any compelling rationale detailing why it is appropriate.

Finally, we were surprised that Ofgem no longer sees the need to support an increase in the capacity to deploy generation given how much store they placed on it during the 2021-22 winter storm period.

- Ofgem must reconsider the treatment of Closely Associated Indirect (CAI) costs that are necessary to support the capital delivery being allowed.
 - Delivery of capital investment requires the associated indirect costs.
 - This relationship has been recognised by Ofgem in all other recent reopener determinations...
 - ...and in Ofgem's guidance for this reopener, as it requested submission of both capital and indirect costs.
 - The rationale for rejection of the indirect costs is flawed.
 - Our remedy utilises Ofgem's indirect scaler approach, and therefore aligns to the funding of indirect costs elsewhere in the price control.
- The Storm Arwen Reopener should be funded through adjustments to the licensee's ex-ante allowances, as per the licence and ED2 final determination policy decision.
 - The proposed change in policy to amend the licence to create PCDs is inappropriate and has not been justified.
 - The reopener consultation should consider only the value of the allowance adjustment to be made in accordance with the licence (as set out at the start of the price control), rather than seeking to both specify the level of funding and simultaneously amend the funding mechanism.
 - The proposal is also inconsistent with Ofgem's recent reopener determinations.
- Ofgem's rejection of our proposal to make greater use of generators initiatives seems at odds the Storm Arwen Recommendations and Ofgem's own position during Storm Arwen.

Q4. Do you agree with Ofgem's assessment of the cross-boundary interconnectors proposals and rejecting the requests for an allowance?

- 1) We believe that Ofgem's position on interconnectors is to fund project development costs and for more mature proposals for additional funding to be brought forward as part of RIIO-ED3 business plans.
- 2) The additional allowance proposed by Ofgem would facilitate this. However, as explained more fully in response to Question 11, Ofgem' should be providing ex-ante allowance in accordance with the reopener mechanism specified in the licence.

Q5. Do you agree with Ofgem's assessment of the vegetation management proposals and rejecting the requests for an allowance?

- 3) We did not request any allowances through the reopener regarding vegetation management. We also provide no comments on any specific proposals relating to any other DNO.
- 4) We do agree with Ofgem that changes in vegetation management investment arising from changes to ETR132 for resilience purposes, or by increased growth rates driven by changing weather patterns, should be assessed as part of RIIO-ED3.

Q6. Do you agree with Ofgem's assessment of the Temporary Power Sources proposals and rejecting requests for an allowance?

- 5) We do not agree with Ofgem's assessment of our initiatives to make greater use of generators. The rationale behind the rejection of these initiatives seems at odds with the Storm Arwen Recommendations and Ofgem's own position during Storm Arwen.
- 6) To base the assessment of the initiatives on the treatment of mobile generators during the RIIO-ED2 price control review is inappropriate. Storm Arwen occurred at the same time as we were submitting our RIIO-ED2 business plans. Had we submitted our RIIO-ED2 business plans some time

afterwards, the conversation about storm resilience and mobile generation would have been entirely different.

- 7) We also disagree that the potential to utilise generators during business-as-usual should disqualify them as a viable proposal under this reopener. Ofgem has failed to take account of how generators are utilised during storm events, and it does not recognise the key difference between business-as-usual and major incident utilisation.
- 8) While it is true that generators will deliver benefits during business-as-usual activity, the impact and value delivered to customers through greater use of generation is significantly greater during major incidents.
- 9) In business-as-usual planned work we have time to organise and arrange for the relevant generators to be available days in advance with sizes and deployment locations also worked out in advance. This targeted deployment allows for greater efficiency, an assessment of whether planned interruption is possible, and lower usage of generation overall.
- 10) In a storm event, where the primary objective is to restore power to our customers' homes and businesses as soon as possible, we deploy many more generators and must do it quickly. This requires us to have access to a greater number of generators than we would typically use in business-as-usual activity.
- 11) Consequently, the benefits of the additional generation are unlikely to be meaningfully realised during business-as-usual as this is not the primary driver behind the initiatives proposed. Instead, the most meaningful value is delivered through increasing our ability to respond rapidly to the diverse range of situations that arise during a major incident.
- 12) The step-up generator pads we proposed are not business-as-usual items and would be almost always used in severe storm conditions when remote radial spur circuits lose their only point of supply (as they do not have an alternative supply). Having these sites pre-equipped with connection points to the high-voltage lines, sufficient foundations and an earthing grid will allow a much-improved restoration time compared with our business-as-usual approach of connecting several smaller generators at low voltage
- 13) While the detection of faults can go some way to helping us strategically deploy generators, it does not change the fact that the ability to deploy and utilise a greater volume and a greater variety of generators, and placing them on pre-prepared sites, during a major incident is in our customers' best interest, and we believe is entirely in line with the Storm Arwen Recommendations.

Q7. Do you agree with Ofgem's assessment of the Customer Care and Welfare proposals and rejecting the requests for an allowance?

- 14) We understand Ofgem's assessment of our customer care and welfare proposals and the rejection of our request for an allowance.
- 15) We continue to believe that Ofgem should have funded this activity. The initiatives we submitted were informed by stakeholder feedback following Storm Arwen and were proposed as a result of the Storm Arwen Recommendations. We recognise that Ofgem wishes to explore whether these provisions should be required of DNOs as part of RIIO-ED3 and we would welcome Ofgem engaging with all relevant stakeholders.
- 16) Within our initiatives relating to customer care, we included initiatives relating to improving the speed of compensation. We are pleased that Ofgem has accepted these proposals.

Q11. Do you agree with Ofgem's assessment of NPg's request for an allowance?

- 17) No, we believe that there are two issues Ofgem must reconsider with regard to allowances relating to this reopener, and to bring its policy decision in line with other recent reopener determinations.
- a. Ofgem must fund the Storm Arwen Reopener through adjustments to the licensee's ex-ante allowances, as currently provided for by the licence and in accordance with the RIIO-sED2 final determinations policy decision; and
 - b. Ofgem must reconsider the treatment of Closely Associated Indirect (CAI) costs.

Ofgem must fund the Storm Arwen Reopener through adjustments to DNOs' ex-ante allowances, as per the licence and policy intent

- 18) Ofgem has assigned price control deliverables (PCDs) to proposals it has accepted. We believe this is inappropriate.
- 19) The licence mechanically adjusts the licensee's ex-ante values following determination of an allowance through the Storm Arwen Reopener. The purpose of a reopener consultation is to consult on the value of the allowance adjustment, SART, not the funding mechanism that was set out in the licence at the start of the price control.

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- a. As per paragraph 3.2.72(a) of Special Condition 3.2 Part J, the Storm Arwen Reopener allowance adjustment is made via “*modifications to the value of SART set out in Appendix 1*”.
 - b. To enact the change, Ofgem solely needs to update the SART value in Appendix 1 of Special Condition 3.2, which is clearly labelled “*Uncertain Costs without Evaluative Price Control Deliverables allowances (£m)*”.

20) The policy intent clearly aligns to this.

- a. Ofgem set out the purpose of the Storm Arwen Reopener in its ED2 Final Determination as providing:

*“DNOs with the opportunity to apply to **adjust their ex ante allowances where they identify a change to the scope of work they expect to deliver**, as a result of the Energy Emergencies Executive Committee (E3C’s) or Ofgem’s recommendations from the Storm Arwen review”*¹[Emphasis added].

- b. Ofgem further affirmed this in paragraph 6.56:

*“We will assess **how changes to the DNO’s scope of work are related to the Storm Arwen recommendations** as part of the needs case for adjustment to the DNO’s ex ante allowance.”*²[Emphasis added].

21) Ofgem has correctly followed this process for the Physical Security Reopener and in the Draft Direction for the Hebrides and Orkney re-opener (Appendix 3 to this consultation document) that are subject to the same treatment in the licence.

Ofgem must reconsider the treatment of Closely Associated Indirect (CAI) costs

22) Ofgem has removed all funding requests for CAI allowances with no valid justification.

23) Ofgem states that it does not agree that further indirect funding is required to deliver the capex work requested – this cannot be right. It is a matter of common sense that delivering higher direct investment requires higher associated indirect costs. Quantified evidence of this is also clear in Ofgem’s own analyses and is reflected in regulatory precedent.

- a. Ofgem’s own regressions (CAI and BSCs) demonstrate the strong relationship between business scale and indirect costs.
- b. Ofgem has awarded indirect funding in other, not load-related, reopener submissions.
 - i. NPg’s Cyber Resilience Reopener funding includes non-op capex and BSC allowances.

¹ ED2 Final Determination, Overview Document, page 44

² ED2 Final Determination, Overview Document, page 47

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- ii. Ofgem’s 2019 ED1 streetworks reopener decision included funding for associated administration costs at 14% of the allowances adjustment. Ofgem’s 2024 ED1 close out streetworks reopener proposal includes funding for associated administration costs at 16% of the proposed allowance adjustment.
 - iii. Ofgem proposed to fund our Physical Security Reopener indirect cost component fully, which accounts for 17% of the total allowance³.
- c. Ofgem has introduced automated mechanisms to address the relationship between capex and indirect costs.
- iv. Ofgem’s Indirects Scaler is set at a value of 10.8% of each unit of capex allowance provided under load-related uncertainty mechanisms.
 - v. Ofgem’s T1/ED1 re-openers followed this principle, relying on evidence⁴ that indirect costs were c. 12% -19% of the total cost of electricity transmission lines.
- 24) The capex included in the Storm Arwen reopener will require an increase in costs that Ofgem define as CAIs.

- a. Ofgem defines CAIs as:

“Closely Associated Indirects costs include the back-office functions directly involved in the construction and operation of the network assets, such as project management and network design.

Closely Associated Indirects activities are grouped into the following categories:

- *Core Closely Associated Indirects: Network design and engineering, project management, system mapping, engineering management and clerical support (excluding Wayleaves), stores, network policy, control centre and call centre.*
- *Wayleaves*
- *Vehicles and transport*
- *Operational training including workforce renewal”⁵*

- b. Our Storm Arwen proposals require this exact type of funding:

- i. *Network design and engineering is required to develop the specific schemes of work.*
- ii. *Wayleaves resource will be required for changes to overhead lines and the securing of new routes for underground cables.*
- iii. *Project and engineering management will be required to ensure that the work is delivered to time, cost and quality; and*

³ Ofgem Physical Security Re-opener Draft Determinations, page 23, para 1.74.

⁴ UIC Report -Electricity Infrastructure (ACER, 2015)

⁵ Ofgem ED2 Final Determination Core Methodology Document, page 329, para 7.594 and 7.495

iv. Project support is necessary to ensure that the impacted customers are kept informed during the activity.

25) Ofgem has provided no evidence as to why capex included in the Storm Arwen reopener should be treated differently.

a. Ofgem's reopener guidance even asks for both direct and indirect costs to be included within the submission.

26) It is irrelevant that another DNOs did not request CAI allowances.